



**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

Basic Financial Statements

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

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## Independent Auditors' Report

The Honorable Board of Supervisors  
County of San Bernardino, California:

We have audited the accompanying basic financial statements of Arrowhead Regional Medical Center (Medical Center), a fund of the County of San Bernardino (County), as of and for the years ended June 30, 2002 and 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 of the notes to basic financial statements, the financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2002 and 2001, and the changes in its financial position and the cash flows of its proprietary fund types for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2002 and 2001 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements, the Medical Center adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2000.



The Medical Center has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

January 17, 2003

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Net Assets

June 30, 2002 and 2001

(In thousands)

	<u>2002</u>	<u>2001</u>
<b>Assets:</b>		
Current assets:		
Cash	\$ 339	7,297
Assets whose use is limited – restricted	1,387	1,387
Patient accounts receivable, net of estimated uncollectibles of \$238,439 in 2002 and \$144,353 in 2001	27,476	26,082
Due from third-party payors	8,769	5,329
Receivables from federal and state programs	40,922	2,012
Due from County	3,123	308
Loan receivable	—	2,700
Supplies inventories	1,279	1,564
Prepaid expenses and other assets	3,378	1,206
Total current assets	86,673	47,885
Assets whose use is limited – restricted	57,257	57,083
Capital assets, net of accumulated depreciation of \$85,375 in 2002 and \$61,122 in 2001	518,339	541,703
Deferred issuance costs	10,976	11,605
Total assets	673,245	658,276
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	10,933	11,437
Accrued salaries and benefits	10,546	10,142
Other accrued liabilities	596	1,282
Capital lease obligations	380	474
Certificates of participation	20,850	19,895
Interest payable	14,514	14,895
Arbitrage payable	107	1,150
Due to County	36,619	495
Total current liabilities	94,545	59,770
Capital lease obligations, less current installments	289	669
Certificates of participation, less current installments (net of deferred amount of refunding and discount)	601,208	619,514
Total liabilities	696,042	679,953
<b>Net Assets (Liabilities):</b>		
Invested in capital assets, net of related debt	(93,412)	(87,244)
Restricted for debt service	44,130	43,575
Unrestricted	26,485	21,992
Total net liabilities	\$ (22,797)	(21,677)

See accompanying notes to basic financial statements.

**COUNTY OF SAN BERNARDINO**  
**ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2002 and 2001

(In thousands)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Net patient service revenue	\$ 298,325	279,920
Premium revenue – managed care	10,509	9,480
Mental health reimbursement	—	7
Other	4,671	3,748
Total operating revenues	<u>313,505</u>	<u>293,155</u>
Operating expenses:		
Salaries and benefits	110,380	101,150
Medi-Cal Matching Fund expense	87,674	77,909
Medical claims expense	1,314	1,110
Supplies	45,128	41,470
Professional services	32,089	33,909
Purchased services	21,394	18,641
Insurance	4,041	3,946
Provision for bad debts	22,516	22,583
Utilities	4,503	4,972
Depreciation and amortization	24,253	24,036
Rent	964	2,044
Amortization related to debt	3,172	3,171
Other	4,304	3,800
Total operating expenses	<u>361,732</u>	<u>338,741</u>
Operating loss	<u>(48,227)</u>	<u>(45,586)</u>
Nonoperating revenues (expenses):		
State debt service funding	30,365	12,362
State realignment funding	28,885	31,072
Tobacco tax	2,533	3,554
Investment income	3,685	4,041
Interest expense on debt	(35,195)	(35,971)
Other nonoperating revenues	2,025	—
Other nonoperating expenses	(2,700)	—
Loss on disposal of capital assets	—	(22)
Total nonoperating revenues, net	<u>29,598</u>	<u>15,036</u>
Loss before transfers	<u>(18,629)</u>	<u>(30,550)</u>
Transfers from the County	19,430	24,316
Transfers to the County	(1,921)	(2,023)
Total transfers from the County, net	<u>17,509</u>	<u>22,293</u>
Change in net assets	(1,120)	(8,257)
Net liabilities, beginning of year	<u>(21,677)</u>	<u>(13,420)</u>
Net liabilities, end of year	<u>\$ (22,797)</u>	<u>(21,677)</u>

See accompanying notes to basic financial statements.

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Cash Flows

Years ended June 30, 2002 and 2001

(In thousands)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Receipts from customers	\$ 242,574	289,523
Payments to suppliers	(200,184)	(186,227)
Payments to employees	(109,976)	(100,543)
Other receipts (payments), net	32,633	(12,083)
Net cash used in operating activities	<u>(34,953)</u>	<u>(9,330)</u>
Cash flows from noncapital financing activities:		
State realignment funding received	28,885	31,072
Tobacco tax received	2,533	3,554
Transfers from the County	19,430	24,316
Transfers to the County	(1,921)	(2,023)
Other nonoperating income received	2,025	—
Net cash provided by noncapital financing activities	<u>50,952</u>	<u>56,919</u>
Cash flows from capital and related financing activities:		
State debt service funding	30,365	12,362
Purchase of capital assets	(889)	(3,740)
Proceeds from sales of capital assets	—	1,808
Principal payments on capital lease obligations	(474)	(656)
Principal payments on certificates of participation	(19,895)	(19,005)
Interest paid on debt	(35,576)	(36,427)
Net cash used in capital and related financing activities	<u>(26,469)</u>	<u>(45,658)</u>
Cash flows from investing activities:		
Interest on investments	3,686	4,030
Purchase of investments	(174)	(423)
Net cash provided by investing activities	<u>3,512</u>	<u>3,607</u>
(Decrease) increase in cash	<u>(6,958)</u>	<u>5,538</u>
Cash, beginning of year	<u>7,297</u>	<u>1,759</u>
Cash, end of year	<u>\$ 339</u>	<u>7,297</u>

**COUNTY OF SAN BERNARDINO  
ARROWHEAD REGIONAL MEDICAL CENTER**

Statements of Cash Flows

Years ended June 30, 2002 and 2001

(In thousands)

	<u>2002</u>	<u>2001</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (48,227)	(45,586)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	24,253	24,036
Amortization related to debt	3,172	3,171
Contractual expense	71,570	36,037
Provision for bad debts	22,516	22,583
Decrease (increase) in:		
Patient accounts receivable	(95,480)	(58,995)
Due from third-party payors	(3,440)	(2,972)
Receivables from federal and state programs	(38,910)	26,053
Due from County	(2,815)	8,331
Supplies inventories	285	(185)
Prepaid expenses and other assets	(2,172)	1,007
Increase (decrease) in:		
Accounts payable	(504)	2,254
Accrued salaries and benefits	404	607
Other accrued liabilities	(686)	(5,302)
Arbitrage payable	(1,043)	164
Due to County	36,124	(20,533)
Net cash used in operating activities	\$ <u>(34,953)</u>	<u>(9,330)</u>
Supplemental disclosure of noncash capital and related financing activities:		
Loss on disposal of capital assets	\$ —	22
Write-off of loan receivable	<u>2,700</u>	<u>—</u>

See accompanying notes to basic financial statements.



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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(1) Summary of Significant Accounting Policies**

**(a) General**

The County of San Bernardino (County) Arrowhead Regional Medical Center (Medical Center) is classified as a level II trauma center with eight trauma bays and four additional “swing” trauma rooms that can be used during an emergency. In addition, the Medical Center provides 373 patient beds and has 24 private treatment rooms for diagnosis and treatment of urgent care patients. During fiscal year 2000, the Medical Center assumed the inpatient operations, consisting of 90 beds, from the previously separate Department of Behavioral Health.

The Medical Center is owned by the County, which is a legal subdivision of the state of California charged with governmental powers, and is reflected in the County’s comprehensive annual financial report as an enterprise fund. The County’s powers are exercised through the Board of Supervisors which, as the governing body of the County, is responsible for the legislative and executive control of the County.

These financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of the County and the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

**(b) Basis of Accounting**

The basic financial statements of the Medical Center are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period in which they are incurred.

Operating revenues include those generated from direct patient care and related support services. Operating expenses include the cost of providing patient care, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(c) Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Medical Center applies all applicable GASB pronouncements, as well as statements and interpretations of FASB, the Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

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June 30, 2002 and 2001

(Dollar amounts in thousands)

**(d) Accounting Changes and Restatements**

On July 1, 2000, the Medical Center implemented three new accounting statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*;
- Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus*;
- Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Medical Center’s beginning retained deficit has been restated to reflect the cumulative effect of the implementation of Statement No. 34 (as amended by Statement No. 37). The following table provides a reconciliation of the retained deficit as of June 30, 2000, as previously reported, to net liabilities as of July 1, 2000:

Retained deficit as of June 30, 2000, as previously reported	\$ (56,675)
Contributed capital	40,567
Net assets transferred from County	<u>2,688</u>
Net liabilities as of July 1, 2000	<u>\$ (13,420)</u>

Additionally, the adoption of Statement No. 34 required the following changes on the basic financial statements:

- Reclassification of net assets in accordance with the statement
- Change from the indirect method of preparing the cash flow statement to the direct method
- Preparation by management of the newly required “Management’s Discussion and Analysis” (MD&A) to be included with the basic financial statements as required supplemental information. The Medical Center has elected not to present MD&A.

Statement No. 38 requires certain disclosures to be made in the notes to the basic financial statements concurrent with the implementation of Statement No. 34. While this statement does not affect amounts reported in the Medical Center’s basic financial statements, certain note disclosures have been added and or amended.

**(e) Income Taxes**

The Medical Center is owned and operated by the County and is exempt from federal and state income tax pursuant to IRC Section 115 and similar provisions of the California Franchise Tax Code and is also exempt from federal and state income tax filing requirements.

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June 30, 2002 and 2001

(Dollar amounts in thousands)

**(f) *Charity Care***

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at an amount less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**(g) *Net Patient Service Revenue***

Net patient service revenue is recorded at established rates less contractual allowances from third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**(h) *Premium Revenue – Managed Care***

The Medical Center has agreements with Inland Empire Health Plan (IEHP), Foundation Health, and Aetna to provide medical services to subscribing participants. Under these agreements, the Medical Center receives monthly capitation payments based on the number of participants, regardless of services actually performed by the Medical Center. The Aetna agreement expired as of December 31, 2000.

Premium revenue is recognized in the period in which participants are entitled to health care services.

**(i) *Cash***

The Medical Center maintains a certain portion of its cash on deposit with the County Treasurer.

**(j) *Assets Whose Use is Limited – Restricted***

Assets whose use is limited – restricted represent funds held by a trustee which are legally restricted for bond reserve accounts. Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets.

**(k) *Capital Assets***

Buildings, improvements, and equipment with a historical cost over \$5,000 are capitalized. Contributed capital assets are reported at their estimated fair value at the date of donation. Depreciation expense is provided using the straight-line method over the estimated useful lives of the respective classes of capital assets. Equipment under capitalized leases is amortized using the straight-line method over the lesser of minimum lease terms or estimated useful lives. The estimated useful lives for computing depreciation expense are as follows:

Buildings	40 years
Improvements	3 to 25 years
Equipment	5 to 20 years

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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(l) Capitalized Interest**

The Medical Center capitalizes net interest expense as a cost of property constructed. No amounts were capitalized for the years ended June 30, 2002 and 2001.

**(m) Supplies Inventories**

Supplies inventories are recorded at the lower of average cost or market.

**(n) Net Assets**

Net assets of the Medical Center are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. Restricted net assets are reduced by any liabilities payable from restricted assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**(o) Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) Cash and Assets Whose Use is Limited**

**(a) Summary**

The Medical Center's cash deposits as of June 30, 2002 and 2001 are summarized as follows:

	<b>2002</b>	<b>2001</b>
Cash	\$ 339	7,297
Cash – assets whose use is limited	13,551	13,946
Total cash	\$ 13,890	21,243

The Medical Center's assets whose use is limited as of June 30, 2002 and 2001 is comprised of the following:

	<b>2002</b>	<b>2001</b>
Cash	\$ 13,551	13,946
Investments	44,319	43,722
Interest receivable	774	802
Total assets whose use is limited	\$ 58,644	58,470



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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(b) Cash Deposits**

At June 30, 2002 and 2001, the carrying amount of the Medical Center's cash deposits was \$13,890 and \$21,243, respectively, and the bank balance was \$13,899 and \$15,290, respectively. The entire bank balance was collateralized with securities held by the pledging financial institution's trust department at 110% of the deposits, in accordance with the State of California Government Code, in the Medical Center's name.

**(c) Custodial Credit Risk and Fair Value of Investments**

Debt proceeds are held by fiscal agent and have been invested in accordance with applicable debt agreements. Investments that are represented by specific identifiable investment securities are classified as to custodial credit risk categories. Category 1 includes investments that are insured or registered, or securities held by the Medical Center or its agent in the Medical Center's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Medical Center's name. Category 3 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the Medical Center's name. The Medical Center's investments at June 30, 2002 and 2001 are summarized as follows:

Type	Credit risk category 1	Carrying amount at fair value
June 30, 2002:		
Categorized investments – U.S. government securities	\$ 22,071	22,071
Noncategorized investments – guaranteed investment contracts		22,248
Total investments		\$ 44,319
June 30, 2001:		
Categorized investments – U.S. government securities	\$ 21,474	21,474
Noncategorized investments – guaranteed investment contracts		22,248
Total investments		\$ 43,722

**(3) State Realignment Funding**

The State of California provides support to the Medical Center through a realignment fund. This realignment funding is provided from vehicle license fees and sales tax collected at the state level and allocated to California's counties. The realignment fund replaces state support previously given for specific purposes such as aid to local municipalities affected by decreased levels of tax support, aid to counties which provide services to medically indigent adults, and aid for unreimbursed medical costs of legalized indigent aliens. The amount to be received by the counties is dependent upon the actual change in sales tax and vehicle license fees. The Medical Center's share of these revenues for the years ended June 30, 2002

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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

and 2001 was \$28,885 and \$31,072, respectively. Because the revenues received are not based upon services provided to patients, they have been classified as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets.

**(4) Net Patient Service Revenue**

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the fiscal years ended June 30, 2002 and 2001, the Medi-Cal program represented approximately 45% and 49%, respectively, and the Medicare program represented approximately 12% and 10%, respectively, of the Medical Center's net patient service revenue. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon preestablished rates for diagnostic-related groups. Effective August 1, 2000, outpatient services went from a cost reimbursement payment methodology to prospectively determined payments per procedure under a system called Ambulatory Payment Classifications. A three-year transitional payment provision exists to limit the impact of this new payment system. Certain defined capital and medical education costs related to Medicare beneficiaries continue to be paid based on a cost-reimbursement methodology. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under these programs and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Medical Center. Reports on the results of such audits have been received through June 30, 1999 for Medicare and Medi-Cal. Adjustments as a result of such audits are recorded in the year the amount can be determined.

**Senate Bill 855** – California's Senate Bill 855 (SB-855) was passed by the State Legislature and signed into law in 1991. The bill provides for supplemental Medi-Cal payments to hospitals which serve a disproportionately high percentage of Medi-Cal and other low-income patients. SB-855 provides additional funds through a reimbursement rate increase at the Medical Center for each Medi-Cal patient day provided, up to a maximum number of days. The Medical Center received \$102,015 and \$92,495 in SB-855 funds for the years ended June 30, 2002 and 2001, respectively. Because the revenues generated are based upon services provided to patients, they have been classified as net patient service revenue in the accompanying statements of operations. The program required the Medical Center to contribute matching funds of \$67,674 and \$60,409 for the years ended June 30, 2002 and 2001, respectively, which were recorded as operating expense in the accompanying statements of revenues, expenses, and changes in net assets. The Medical Center recorded a receivable in the amount of \$6,952 at June 30, 2000, which was included in receivables from federal and state programs. The Medical Center had no related receivables at June 30, 2002 and 2001.

**Senate Bill 1255** – California's Senate Bill 1255 (SB-1255) was passed by the California Legislature and signed into law in 1989. This bill provides a funding mechanism to assist disproportionate share hospitals to fund budget shortfalls. SB-1255 allows disproportionate share hospitals to make voluntary donations to the state. The state then matches the money received with federal funds and redistributes the funds to the eligible hospitals in the subsequent fiscal year. The Medical Center received \$38,500 and \$36,000 in

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June 30, 2002 and 2001

(Dollar amounts in thousands)

SB-1255 funds for the years ended June 30, 2002 and 2001, respectively. Because the revenues generated are based upon services provided to patients, they have been classified as net patient service revenue in the accompanying statements of revenues, expenses, and changes in net assets. The Medical Center contributed matching funds of \$20,000 and \$17,500 for the years ended June 30, 2002 and 2001, respectively, which were recorded as operating expense in the accompanying statements of revenues, expenses, and changes in net assets. The Medical Center had no related receivables at June 30, 2002 and 2001.

**(5) Charity Care**

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the fiscal years ended June 30:

	<u>2002</u>	<u>2001</u>
Charges foregone based on established rates	\$ <u>172,381</u>	<u>124,235</u>

**(6) Capital Contributions**

In 1991, the County Board of Supervisors approved the construction and financing plan of the Arrowhead Regional Medical Center project. The Inland Empire Public Facilities Corporation (Corporation) financed the project through the issuance of Certificates of Participation. The Corporation is a nonprofit public benefit corporation formed on May 30, 1986 to serve the County, including the Medical Center, by financing, refinancing, acquiring, constructing, improving, leasing, and selling buildings, building improvements, equipment, land, land improvements, and any other real or personal property for the benefit of the residents of the County. The Corporation is included in the County's reporting entity as a blended component unit. In fiscal year 1999, the Medical Center project assets and liabilities were contributed to the Medical Center.

In accordance with the master lease agreement, the County is to make aggregate lease payments each year as consideration for the use and occupancy of the Medical Center in an amount designated to be sufficient to pay the annual principal and interest due with respect to any construction debt outstanding. Senate Bill 1732 (SB-1732) was passed by the California Legislature and signed into law in October 1998. The law permits qualifying medical centers to receive reimbursement, in addition to their Medi-Cal contract reimbursement, for a portion of the debt service of qualified projects. Under SB-1732, the Medical Center estimates that it will receive proceeds equal to 50% of the total debt service costs. In September 2000, the Medical Center received \$20,268 in SB-1732 funds. Additional amounts received by the Medical Center during fiscal year 2002 and 2001 amounted to \$30,365 and \$12,362, respectively, which are included as nonoperating revenues in the accompanying statements of revenue, expenses, and changes in net assets. The Medical Center had no related receivables at June 30, 2002 and 2001.

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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(7) Capital Assets**

A summary of capital assets activity for the years ended June 30, 2002 and 2001 is as follows:

	<b>Beginning balance (as restated)</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending balance</b>
June 30, 2002:				
Land and improvements	\$ 22,096	—	—	22,096
Buildings and improvements	490,481	—	—	490,481
Equipment	90,248	889	—	91,137
Total capital assets, gross	602,825	889	—	603,714
Less accumulated depreciation for:				
Land and improvements	(4)	(2)	—	(6)
Buildings and improvements	(28,175)	(12,270)	—	(40,445)
Equipment	(32,943)	(11,981)	—	(44,924)
Total accumulated depreciation	(61,122)	(24,253)	—	(85,375)
Capital assets, net	\$ 541,703	(23,364)	—	518,339
June 30, 2001:				
Land and improvements	\$ 22,096	—	—	22,096
Buildings and improvements	488,790	1,691	—	490,481
Equipment	90,029	2,049	(1,830)	90,248
Total capital assets, gross	600,915	3,740	(1,830)	602,825
Less accumulated depreciation for:				
Land and improvements	(2)	(2)	—	(4)
Buildings and improvements	(15,882)	(12,293)	—	(28,175)
Equipment	(21,213)	(11,741)	11	(32,943)
Total accumulated depreciation	(37,097)	(24,036)	11	(61,122)
Capital assets, net	\$ 563,818	(20,296)	(1,819)	541,703



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Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(8) Transactions with the County**

The Medical Center uses the treasury function of the County and at times maintains a cash overdraft with the County which can be repaid only through collection of receivables. The Medical Center did not have a cash overdraft as of June 30, 2002 and 2001.

The Medical Center is allocated a portion of the County's overhead costs. Such expenses totaled \$1,678 and \$1,743 for the years ended June 30, 2002 and 2001, respectively, and are included as operating expense in the accompanying statements of revenues, expenses, and changes in net assets.

The Medical Center is allocated a portion of the County's annual debt service requirement on the County's pension obligation revenue bonds. Such amount totaled \$1,921 and \$2,023 for the years ended June 30, 2002 and 2001, respectively, and are included in transfers to the County in the accompanying statement of revenues, expenses, and changes in net assets.

The Medical Center also receives funds from the County of a fixed amount for care of the County's medically indigent patients.

**(9) Loan Receivable**

During fiscal year 2000, the County entered into an agreement with the City of Colton (City). Under the agreement, the City loaned the County \$2,700 to help finance a portion of the Medical Center Project (see note 6). The County recorded revenue and a corresponding loan receivable from the City of \$2,700 as of and for the year ended June 30, 2000. With the implementation of Statement No. 34, the loan receivable was transferred from the County to the Medical Center as of July 1, 2000. During fiscal year 2002, the loan receivable was deemed uncollectible. Accordingly, the balance was written off and recorded as other nonoperating expense in the accompanying statement of revenues, expenses, and changes in net assets.

In lieu of the loan receivable being deemed uncollectible, the County transferred \$2,700 to the Medical Center during fiscal year 2002, which is recorded within transfers from the County in the accompanying statement of revenues, expenses, and changes in net assets.

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ARROWHEAD REGIONAL MEDICAL CENTER**

Notes to Basic Financial Statements

June 30, 2002 and 2001

(Dollar amounts in thousands)

**(10) Long-term Obligations**

The following is a summary of changes in long-term obligations for the fiscal years ended June 30, 2002 and 2001:

		June 30, 2002			
	Beginning balance	Additions	Deletions	Ending balance	Due within one year
Certificate of participation:					
Series 1994	\$ 206,700	—	(2,750)	203,950	4,490
Series 1995	143,610	—	(5,675)	137,935	4,365
Series 1996	65,070	—	—	65,070	—
Series 1997	110,115	—	(11,470)	98,645	11,995
Series 1998	176,510	—	—	176,510	—
Total	702,005	—	(19,895)	682,110	20,850
Less:					
Deferred amount on refunding	(47,365)	—	2,108	(45,257)	—
Discount on debt	(15,231)	—	436	(14,795)	—
Total certificates of participation	639,409	—	(17,351)	622,058	20,850
Capital lease obligations	1,143	—	(474)	669	380
Total	\$ 640,552	—	(17,825)	622,727	21,230
		June 30, 2001			
	Beginning balance	Additions	Deletions	Ending balance	Due within one year
Certificate of participation:					
Series 1994	\$ 210,770	—	(4,070)	206,700	2,750
Series 1995	147,565	—	(3,955)	143,610	5,675
Series 1996	65,070	—	—	65,070	—
Series 1997	121,095	—	(10,980)	110,115	11,470
Series 1998	176,510	—	—	176,510	—
Total	721,010	—	(19,005)	702,005	19,895
Less:					
Deferred amount on refunding	(49,473)	—	2,108	(47,365)	—
Discount on debt	(15,665)	—	434	(15,231)	—
Total certificates of participation	655,872	—	(16,463)	639,409	19,895
Capital lease obligations	1,799	—	(656)	1,143	474
Total	\$ 657,671	—	(17,119)	640,552	20,369

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June 30, 2002 and 2001

(Dollar amounts in thousands)

**(a) *Certificates of Participation***

The Medical Center's certificates of participation were issued by the Corporation.

Certificates of participation at June 30, 2002 consist of the following:

***Series 1994***

The Medical Center Series 1994 Certificates of Participation were issued by the Corporation dated February 1, 1994 in the amount of \$283,245, with interest rates from 4.60% to 7.00%.

The Series 1994 Certificates maturing on August 1, 2005, August 1, 2006, August 1, 2019, August 1, 2024, August 1, 2026, and August 1, 2028 are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2004, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2004 to July 31, 2005	2%
August 1, 2005 to July 31, 2006	1
August 1, 2006 and thereafter	—

The Series 1994 Certificates maturing on August 1, 2000 through August 1, 2004, August 1, 2009, August 1, 2017, August 1, 2020, and August 1, 2022 are not subject to optional redemption prior to maturity.

***Series 1995***

The Series 1995 Certificates of Participation were issued by the Corporation dated June 1, 1995 in the amount of \$363,265, with interest rates from 4.80% to 7.00%.

The Series 1995 Certificates maturing on August 1, 2022 are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2005, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2005 to July 31, 2006	2%
August 1, 2006 to July 31, 2007	1
August 1, 2007 and thereafter	—

The Series 1995 Certificates maturing on and prior to August 1, 2010 and on August 1, 2017 are not subject to optional redemption prior to maturity.

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June 30, 2002 and 2001

(Dollar amounts in thousands)

***Series 1996***

The Series 1996 Certificates of Participation were issued by the Corporation dated January 1, 1996 in the amount of \$65,070, with interest rates from 5% to 5.25%.

The Series 1996 Certificates are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, on or after August 1, 2006, at the following premiums, plus interest accrued to the redemption date:

<u>Redemption dates</u>	<u>Premium</u>
August 1, 2006 to July 31, 2007	2%
August 1, 2007 to July 31, 2008	1
August 1, 2008 and thereafter	—

***Series 1997***

The Series 1997 Certificates of Participation were issued by the Corporation dated September 1, 1997 in the amount of \$121,095, with interest rates from 4.30% to 5.50%.

The Series 1997 Certificates are not subject to optional redemption prior to maturity.

***Series 1998***

The Series 1998 Certificates of Participation were issued by the Corporation dated October 22, 1998, in the amount of \$176,510. Interest with respect to the Certificates is payable at an adjustable weekly interest rate which may be converted to a fixed interest rate at the option of the Corporation. The Corporation entered into an interest rate swap agreement with Merrill Lynch Capital Services, Inc. which provides that the Corporation will pay a fixed rate of 4.1895% to the Swap Provider on a notional amount equal to the principal amount of the Series 1998 Certificates and the Swap Provider will pay interest to the Corporation at a variable rate of interest on such notional amount, such payments to be made on a net basis.

The Series 1998 Certificates are subject to optional redemption prior to their maturity at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption as follows:

- (a) Prior to the Conversion Date, fixed interest rate, at a redemption price equal to the principal amount called for redemption without premium
- (b) After the Conversion Date, at a redemption price of 100% of the principal amount plus a premium to be determined on or prior to the Conversion Date.

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The proceeds from the Series 1998 Certificates of Participation (Certificates) were used for the advance refunding for \$160,700 of previously issued Series 1995 Certificates of Participation. Government securities were purchased with the proceeds and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service until the remaining outstanding Certificates mature. The advance-refunding method met the requirements of an in-substance defeasance and the remaining outstanding Certificates were removed as a liability of the Medical Center.

As of June 30, 2002, the balance of defeased debt outstanding, but removed from the Medical Center's accounting records, was \$273,695.

**(b) Debt Service Requirements**

The total annual debt service requirements to maturity for the outstanding certificates of participation as of June 30, 2002 are summarized as follows:

Fiscal year	Total	
	Principal	Interest
2003	\$ 20,850	34,578
2004	21,890	33,538
2005	23,060	32,367
2006	24,350	31,076
2007	25,735	29,694
2008 – 12	103,800	128,115
2013 – 17	96,705	103,685
2018 – 22	125,900	75,083
2023 – 27	162,500	38,725
2028 – 32	77,320	3,843
Totals	\$ 682,110	510,704

**(c) Capital Lease Obligations**

The Medical Center has various lease agreements with financial institutions and medical equipment manufacturers expiring at various dates through October 2003, providing for monthly payments at various interest rates. Equipment acquired under these agreements have been accounted for as capital leases.

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(Dollar amounts in thousands)

The schedule of future minimum lease payments on all capital leases is as follows:

Fiscal year ending June 30:		
2003	\$	415
2004		299
Total minimum lease payments		<u>714</u>
Less amount representing interest		<u>(45)</u>
Present value of net minimum lease payments		669
Less current portion of capital lease obligations		<u>380</u>
Capital lease obligations, excluding current portion	\$	<u><u>289</u></u>

The net book value of equipment under capitalized leases at June 30, 2002 and 2001 was \$738 and \$1,085 (net of accumulated amortization of \$3,531 and \$3,185), respectively.

**(11) Arbitrage Payable**

Interest earned in excess of interest expense related to tax-exempt debt issued for public purposes must be remitted to the federal government following the end of each period of five bond years of the Certificates of Participation. The amount of excess investment earnings calculated as of June 30, 2002 and 2001 totals \$107 and \$1,150, respectively.

**(12) Operating Leases**

The following is a schedule of future minimum rental payments required under operating leases entered into by the Medical Center that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002:

Fiscal year ending June 30:		
2003	\$	766
2004		49
Total minimum payments		<u><u>\$ 815</u></u>

Rent expense for operating leases for the years ended June 30, 2002 and 2001 totaled \$1,740 and \$1,595, respectively.

**(13) Retirement Plan**

Employees of the Medical Center participate in a cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to



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members. Employees become eligible for membership on their first day of regular employment and become fully vested after five years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 195 North Arrowhead Avenue, San Bernardino, California 92415-0014.

Participating members are required by statute Sections 31621, 31621.2, and 31639.25 of the California Code to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% to 10.58% of their annual covered salary of which the County pays approximately 7%. Employers are required to contribute 6.67% to 14.46% of the current year covered payroll. The Medical Center's pension cost for the fiscal years ended June 30, 2002 and 2001 was approximately \$7,697 and \$6,679, respectively. Employee contribution rates are established and may be amended pursuant to Articles 6.1 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act. The following table shows the County's required contributions and the percentage contributed for the current year and each of the two preceding years:

	<u>Annual pension cost</u>	<u>Percentage contributed</u>
Year ended June 30:		
2000	\$ 42,673	100%
2001	58,572	100
2002	<u>69,245</u>	<u>100</u>

**(14) Self-Insurance**

The Medical Center participates in the County's self-insurance programs for general liability, unemployment insurance, employee dental insurance, medical malpractice, and workers' compensation claim-related risks.

The activities related to the self-insurance programs are accounted for in the County's Risk Management Funds, separate internal service funds of the County, except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund of the County. The Medical Center participates in these plans through a premium based arrangement that consists of annual amounts not subject to adjustment for adverse claims. Insurance premium expense for the years ended June 30, 2002 and 2001 was \$2,415 and \$2,643, respectively.

**(15) Litigation**

The Medical Center is defendant in various lawsuits and other claims arising in the ordinary course of its operations. In the opinion of County Counsel and County officials, the ultimate outcome of these matters will have no significant effect on the financial condition or operations of the Medical Center.